

AR54

# ANNUAL REPORT 1978



ALBERTA  
NATURAL  
GAS  
COMPANY  
Ltd



# ALBERTA NATURAL GAS COMPANY LTD

240-4th Avenue S.W., Calgary, Alberta T2P 0H5

## Directors

**John F. BONNER**, San Francisco, California

*President and Chief Executive Officer, Pacific Gas and Electric Company*

**HARRY BOOTH**, Calgary, Alberta

*President and Chief Executive Officer, Alberta and Southern Gas Co. Ltd.*

**D. R. FENTON**, Calgary, Alberta

*Senior Vice-President, Alberta and Southern Gas Co. Ltd.*

**H. L. LEPAPE**, Los Angeles, California

*President, Pacific Interstate Transmission Company*

**R. A. MACKIMMIE, Q.C.**, Calgary, Alberta

*Partner, MacKimmie Matthews*

**C. O. NICKLE**, Calgary, Alberta

*President, Conventures Limited*

**R. H. PETERSON**, San Francisco, California

*Chairman of the Board, Pacific Gas and Electric Company*

**J. S. POYEN**, Calgary, Alberta

*Oil and Gas Management Consultant*

**J. A. SPROUL**, San Francisco, California

*Executive Vice President, Pacific Gas and Electric Company*

## Officers

**R. A. MACKIMMIE**, Chairman of the Board

**HARRY BOOTH**, President and Chief Executive Officer

**D. R. FENTON**, Senior Vice-President

**J. E. GOUDIE**, Vice-President, Finance and Administration

**G. D. BARNES**, Vice-President, Operations

**G. W. SINCLAIR**, Vice-President, Engineering and Construction

**D. MCMORLAND**, Vice-President, Regulatory Affairs

**F. G. HOMER**, Secretary and General Counsel

**H. B. SANDERSON**, Treasurer

**G. J. CLARK**, Comptroller

Condensed Earnings Statement

AR54

	(Thousands of Dollars)
	Six Months
	Ended June 30,
	1978
	1977
Operating revenues:	
Gas transmission	11,322
Liquids extraction	15,144
Total operating revenues	26,466
Operating expenses:	
Operating and maintenance	19,525
Depreciation	1,682
Property taxes	546
Total operating expenses	21,753
Operating income	4,713
Other income	1,691
Total	6,404
Interest and other income deductions	1,321
Income before income taxes	5,083
Provision for income taxes	2,623
Net income	2,460
Earnings per share	\$2.06
(1,192,822 outstanding)	\$1.84

Statement of Changes in Financial Position

	(Thousands of Dollars)
	Six Months
	Ended June 30,
	1978
	1977
Funds provided:	
Net income	2,460
Depreciation and other income deductions	1,707
Provision for income taxes	2,623
Increase in notes payable	4,762
Decrease in working capital other than short term borrowings	5,598
Total	17,150
Funds applied:	
Net additions to plant, property and equipment	14,421
Income taxes paid	—
Reduction of long term debt	1,293
Dividends	1,206
Other deferred charges	410
Total	17,150

The above figures have been prepared from the records of the Company without audit.

ALBERTA NATURAL GAS COMPANY LTD  
240 Fourth Avenue S.W.  
Calgary, Alberta  
T2P 0H5

I, CARMEN, BUSINESS EDITOR  
THE GLOBE AND MAIL  
444 FRONT STREET WEST  
TORONTO, ONTARIO M5V 2S9



Lithographed in Canada



INTERIM REPORT  
TO SHAREHOLDERS  
SIX MONTHS ENDED  
JUNE 30, 1978

ALBERTA NATURAL GAS COMPANY LTD



# Alberta Natural Gas Company Ltd

## TO SHAREHOLDERS:

### Financial

For the six month period ended June 30, 1978, net income of Alberta Natural amounted to \$2,460,000, or \$2.06 per share, which compares with \$2,191,000, or \$1.84 per share in the corresponding period of 1977. Profits which may result from participation in the marketing of natural gas liquids are not included in earnings until the close of each year as such profits are determinable only on an annual basis.

The increase in earnings in the current period includes the effect of capitalizing an allowance for funds used during construction of the new ethane extraction facility at the Cochrane plant.

A comparative summary of financial results for the first six months of 1978 and 1977 is included within this report.

### Pipeline Operations

An average of 1,102 million cubic feet ( $31.22 \times 10^6 \text{m}^3$ ) per day was delivered during the first half of 1978 for export at the international boundary at Kingsgate, British Columbia, on behalf of Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited. Deliveries of gas for distribution in the East Kootenay area of British Columbia averaged 25 million cubic feet ( $.71 \times 10^6 \text{m}^3$ ) per day during the same period. In addition, an average of 11 million cubic feet ( $.31 \times 10^6 \text{m}^3$ ) per day was delivered on behalf of Alberta and Southern to Westcoast Transmission at the East Kootenay exchange meter station near Yahk, British Columbia.

### Pipeline System Expansion

Pan-Alberta Gas Ltd. is currently planning to seek approval from the Alberta Energy Resources Conservation Board and the National

Energy Board of short term export of natural gas to the United States. Alberta and Southern will provide 200 million cubic feet ( $5.63 \times 10^6 \text{m}^3$ ) per day of the total required gas supply during the primary term of the project. Approval will require pre-building of parts of the Alaska Highway Pipeline project in southern Canada including approximately 52 miles (83.69 km) in southeastern British Columbia. Alberta Natural will manage the construction and operation of these facilities which will be owned by Foothills Pipe Lines (South B.C.) Ltd., in which Alberta Natural has undertaken to subscribe for 49% of the shares to be issued by that company.

### Liquids Extraction Operations and Expansion

Production of propane and heavier hydrocarbons at the Cochrane liquids extraction plant averaged 11,354 barrels (1 805  $\text{m}^3$ ) per day during the first half of 1978. Reduced propane content of the gas entering the plant continues to hold production below former levels.

The major part of the construction program for the ethane recovery facilities will be completed during the early part of August, with the exception of that work which can only be undertaken during a complete shutdown of the existing plant. It is anticipated that the ethane expansion will be operational by late summer provided that there is early settlement of the construction labour strike now in effect.

Very truly yours,



August 4, 1978

PRESIDENT AND CHIEF  
EXECUTIVE OFFICER

### NOTE:

As complete adoption of the Metric System (SI) by the Petroleum Industry is required by January 1, 1979, Alberta Natural will provide statistical information in both traditional and SI units until that time.

1 MMcf (million cubic feet) =  
.028 million cubic metres ( $10^6 \text{m}^3$ )  
1 barrel (42 U.S. gallons) =  
.159 cubic metres ( $\text{m}^3$ )  
1 mile = 1.609 kilometres (km)

# **ALBERTA NATURAL GAS COMPANY LTD**

## **Auditors**

**DELOITTE, HASKINS & SELLS**

*Chartered Accountants, Calgary, Alberta*

## **Transfer Agent and Registrar**

**(Capital Stock and 8½% First Mortgage Pipe Line Bonds, Series C)**

*Montreal Trust Company, Calgary, Montreal, Regina, Toronto, Vancouver, Winnipeg*

Notice of change of address should be sent to the Transfer Agent

## **Common Shares Listed**

**Alberta, Montreal, Toronto and Vancouver Stock Exchanges**

## **Annual Meeting**

*THE ANNUAL MEETING of Shareholders will be held at the Calgary Convention Centre, McIntyre Room, Calgary, Alberta, on Friday, the 27th day of April, 1979, at 9:30 a.m.*

*The notice of meeting and proxy form are being mailed with this report to all shareholders of record.*

**COVER: Aerial view of Cochrane Plant showing, to the left, the new ethane plant additions.**



## Financial Highlights

	1978	1977
Operating Revenue .....	\$61,769,000	\$52,387,000
Net Income .....	7,271,000	5,787,000
Income per average outstanding common share .....	6.10	4.85
Dividends paid per common share — annual rate (1) .....	2.40	1.72
Common equity — total at year end .....	38,442,000	33,426,000
— per share .....	32.23	28.02
Construction expenditures .....	23,926,000	15,318,000

NOTE: (1) Effective with the fourth quarter dividend payment.

## Common Share Market Information (Toronto Stock Exchange)

1978	High	Low	Close	Shares Traded	Dividends Paid
First Quarter	\$41	\$39	\$40	11,400	\$0.43
Second Quarter	42¼	38	41	10,698	0.43
Third Quarter	48½	40¼	44½	12,099	0.43
Fourth Quarter	48	42	48	20,722	0.60
Year	48½	38	48	54,919	1.89
<b>1977</b>	<b>\$45½</b>	<b>\$28½</b>	<b>\$41</b>	<b>139,679</b>	<b>\$1.645</b>

Adoption of the Metric System (SI) was required by the Petroleum Industry as of January 1, 1979.

The following conversion formulae have been utilized:

1 MMcf (million cubic feet)	= .028 10 <sup>6</sup> m <sup>3</sup>	(million cubic metres)
1 barrel (42 U.S. gallons)	= .159 m <sup>3</sup>	(cubic metres)
1 mile	= 1.609 km	(kilometres)
1 inch	= 25.40 mm	(millimetres)



# ALBERTA NATURAL GAS COMPANY Ltd



*View of Cochrane Plant control room showing operator at computer control consoles monitoring operating conditions.*



## To Our Shareholders

### Financial

The Company's net income for 1978 was \$7,271,000, or \$6.10 per outstanding common share. The comparable net income for 1977 was \$5,787,000, or \$4.85 per common share.

Results from the ethane expansion at the Cochrane Plant contributed substantially to the increase in earnings over those of the previous year. These results include the effects of capitalizing an allowance for funds used during construction and receiving a return on the completed facility at rates considerably above the cost of the short-term funds used to finance the project. Although production and sales levels of natural gas liquids (NGL) were lower in 1978, profits from their sale continued to make an important contribution to the Company's earnings.

The annual dividend rate on the Company's common shares was increased to \$2.40 per share from \$1.72 per share effective with the quarterly dividend payment on December 29, 1978.

Steps are now being taken to enable the Company to apply for continuance as a corporation under the Canada Business Corporations Act. This federal statute came into force in 1975 to revise and reform the law applicable to business corporations incorporated to carry on business throughout Canada. It requires federal companies to which Part I of the Canada Corporations Act applies to apply for continuance under the Canada Business Corporations Act no later than December 14, 1980. At the forthcoming annual meeting of shareholders of the Company, shareholders will be asked to consider and, if thought fit, to pass a special resolution authorizing the directors to apply for a certificate of continuance to continue the Company under the Canada Business Corporations Act and to revise certain by-laws to conform to the statute.

### Gas Pipeline and System Operations

During 1978 deliveries of gas for export at the international boundary at Kingsgate, British

Columbia for Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited averaged  $29.86 \times 10^6 \text{ m}^3$  (1,054 million cubic feet) per day. In comparison,  $34.14 \times 10^6 \text{ m}^3$  (1,205 million cubic feet) per day was delivered during 1977.

The reduction in the average daily deliveries results from lower requirements in the market areas served by Alberta and Southern's customers during 1978. The level of deliveries for Alberta and Southern represents an annual quantity of approximately 92% of its authorized export volume. Alberta and Southern has advised that it anticipates market requirements will increase during 1979 and that throughput levels should increase over the levels that existed in 1978.

Deliveries of gas for distribution in the East Kootenay area of British Columbia averaged  $0.54 \times 10^6 \text{ m}^3$  (19 million cubic feet) per day in 1978. Also, an average of  $0.17 \times 10^6 \text{ m}^3$  (6 million cubic feet) per day of gas was delivered on behalf of Alberta and Southern to Westcoast Transmission at the East Kootenay exchange meter station near Yahk, British Columbia.

Capital expenditures for minor additions and modifications to the pipeline during 1978 amounted to \$80,000.

### Proposed Pipeline System Expansion

In 1977 the National Energy Board recommended certification of the Foothills Pipe Lines (Yukon) Ltd. project to construct the Canadian sections of a pipeline to transport natural gas from Alaska to the lower 48 States. Legislation giving effect to the agreement between Canada and the United States and authorizing the construction of the Canadian sections of the pipeline system was enacted by the Canadian Parliament during April 1978 in the form of the Northern Pipeline Act. This legislation also created the Northern Pipeline Agency, the body authorized to regulate construction of the pipeline in Canada.

Alberta Natural will manage the construction and operation of the portion of the pipeline



system to be constructed in southeastern British Columbia. These facilities will be owned by Foothills Pipe Lines (South B.C.) Ltd. (a 51% owned subsidiary of Foothills Pipe Lines (Yukon) Ltd.). Alberta Natural has undertaken to subscribe for the remaining 49% of the shares to be issued by that company. The project is geared towards commencement of delivery of Alaskan gas in 1984. Company personnel were active throughout 1978 in all phases of the preconstruction activities associated with the project.

Also, during 1978, Foothills (Yukon) proposed "prebuilding" the southern portion of the pipeline system to transport natural gas produced in Alberta to United States markets on behalf of Pan-Alberta Gas Ltd. This will require construction of approximately 83 km (52 miles) of 914 mm (36-inch) pipeline in southeastern British Columbia by Foothills (South B.C.), to be completed in 1981. The primary area of involvement of Company personnel in this proposal during the year concerned the development of information in the areas of archaeology and the environment required to obtain additional right-of-way width over Crown Provincial lands. In addition, Company personnel were closely involved with the Foothills companies and the Northern Pipeline Agency in the development of terms and conditions for the construction of the pipeline system.

The application of Pan-Alberta for permission to export gas from Alberta was heard by the Alberta Energy Resources Conservation Board during January 1979. A hearing of Pan-Alberta's application to the National Energy Board for authorization to export the gas from Canada is expected later in 1979.

### **Cochrane Plant Ethane Expansion**

The expansion of the facilities at Cochrane comprised a modification to the existing plant and the installation of a new turbo expander unit. On September 20, 1978, specification ethane product was first produced from modifications to the existing plant; and on October 22, 1978, the new turbo expander recovery facilities were placed on stream. The final cost of the plant expansion will be approximately \$43,000,000. The new facility was designed to

produce approximately 3 810 m<sup>3</sup> (24,000 barrels) per day of ethane, as well as a modest increase in the quantity of NGL. During a peak day in December the plant actually produced in excess of 3 970 m<sup>3</sup> (25,000 barrels) of ethane.

The ethane being produced is sold under long-term contract to The Alberta Gas Ethylene Company Ltd. and is presently being shipped to eastern markets through the Cochin Pipeline. Upon completion of Alberta Gas Ethylene's plant near Red Deer, Alberta, expected in the fall of 1979, ethane provided by the Cochrane Plant will be converted to ethylene, and thus will be a major contributor to the establishment of a petrochemical industry in Alberta.

### **Extraction Operations**

Production of NGL at the Cochrane Plant averaged 1 680 m<sup>3</sup> (10,540 barrels) per day during 1978, compared with 1 840 m<sup>3</sup> (11,600 barrels) per day during the previous year.

The reduction in volume and propane content of the gas entering the plant, along with the fifteen day plant shutdown in September required to execute the tie-in of the ethane expansion, were the contributing factors in the decline of production. Production levels are expected to improve through the first quarter of 1979.

Production of ethane since September 20, 1978, when the modifications of the existing plant were placed in service, averaged 2 630 m<sup>3</sup> (16,530 barrels) per day to the end of 1978. Since the installation of the turbo expander unit, daily production of ethane has averaged 3 740 m<sup>3</sup> (23,500 barrels) to the end of 1978.

Operating personnel again received a first place award from the Canadian Natural Gas Processors' Association in honor of the plant's seven consecutive years without a lost-time accident. The Workers' Compensation Board's annual award for no lost-time was also received.

### **Future Development**

The completion of the Cochrane Plant expansion in 1978, coupled with the proposed looping of the Company's pipeline in south-



eastern British Columbia as a part of the Alaska Highway pipeline project, will bring Alberta Natural to a mature stage in respect of its activities in its traditional operating areas. Accordingly, the management of your Company, with the approval of the Board of Directors, intends to actively investigate new areas in which the Company may expand and diversify and has formed a Planning and Development Department to assist in carrying out the evaluation work necessary in the assessment of potential investment opportunities.

### Personnel

On June 7, 1978, Mr. J. A. Sproul, Executive Vice President of Pacific Gas and Electric Company and a Director and Vice President of Pacific Gas Transmission Company, was elected to the Board of Directors of your Company following the resignation of Mr. R. W. Brooks. Mr. Brooks has been a Director of

Alberta Natural since December 1974, and his contributions are very much appreciated.

On September 6, 1978, Mr. D. McMorland was appointed Vice-President, Regulatory Affairs.

The Board of Directors wish to express their appreciation to the employees of Alberta Natural for their continued dedication to the successful operations of the Company.

For the Board of Directors

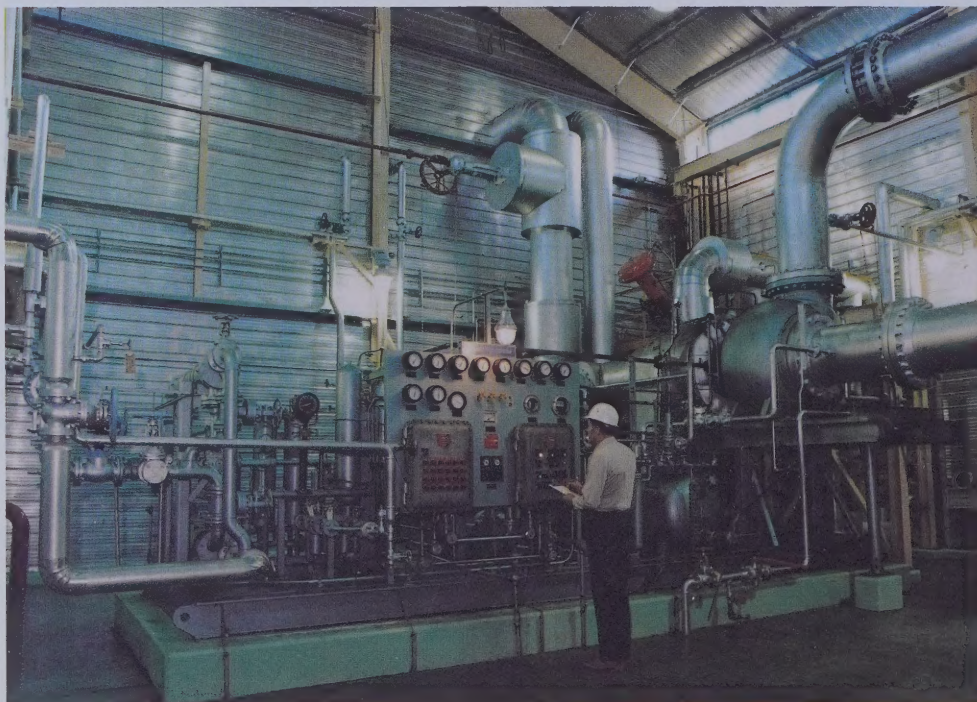
*R. A. McKinnie*

Chairman of the Board

*J. A. Sproul*

President and Chief  
Executive Officer

March 7, 1979



*View of turbo expander unit used to condense ethane and NGL from the gas stream.*



# ALBERTA NATURAL GAS COMPANY Ltd



*View of The Alberta Gas Ethylene Company Ltd. plant, presently under construction, near Red Deer, Alberta.*

**ASSETS**

	<u>1978</u>	<u>1977</u>
	<i>(thousands of dollars)</i>	
<b>PLANT, PROPERTY AND EQUIPMENT —</b>		
at cost (Note 2) .....	\$114,419	\$90,503
Less accumulated depreciation (Note 1) .....	<u>35,307</u>	<u>31,341</u>
Net plant, property and equipment .....	<u>79,112</u>	<u>59,162</u>
 <b>CURRENT ASSETS:</b>		
Cash and interest bearing deposits .....	6,019	4,182
Accounts receivable .....	10,549	8,102
Materials and supplies — at cost .....	1,343	1,128
Prepayments and other .....	<u>93</u>	<u>76</u>
Total current assets .....	<u>18,004</u>	<u>13,488</u>
 <b>DEFERRED CHARGES:</b>		
Unamortized organization and capital stock expense .....	116	124
Unamortized debt expense .....	508	549
Gas Arctic-Northwest Project expenditures (Note 1) .....	1,923	9,586
Other (Note 6) .....	<u>663</u>	<u>598</u>
Total deferred charges .....	<u>3,210</u>	<u>10,857</u>
 <b>TOTAL .....</b>	<b><u>\$100,326</u></b>	<b><u>\$83,507</u></b>

Approved by the Board:

*Richard H Peterson*  
Director

*A. J. Smith*  
Director

See accompanying notes



**SHAREHOLDERS' EQUITY AND LIABILITIES**

1978 1977

(thousands of dollars)

**SHAREHOLDERS' EQUITY (Note 3):**

Capital stock:

Preferred shares:

Authorized — 2,000,000 shares of \$25  
par value each

Common shares:

Authorized — 2,500,000 shares of \$10  
par value each

Issued — 1,192,822 shares .....

\$ 11,928 \$ 11,928

Contributed surplus .....

2,386 2,386

Reinvested earnings .....

24,128 19,112

Total shareholders' equity .....

38,442 33,426

LONG TERM DEBT (Note 4) .....

23,252 25,626

DEFERRED INCOME TAXES (Note 1) .....

18,974 14,118

**CURRENT LIABILITIES:**

Notes payable .....

11,011 4,999

Accounts payable .....

6,435 3,184

Interest accrued .....

485 427

Sinking fund instalments due within

one year .....

1,623 1,623

Total current liabilities .....

19,554 10,233

**CONTRIBUTIONS IN AID OF**

CONSTRUCTION .....

104 104

TOTAL .....

\$100,326 \$83,507

See accompanying notes

# ALBERTA NATURAL GAS COMPANY LTD

## STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1978

(with 1977 figures for comparison)

	1978	1977
	(thousands of dollars)	
<b>OPERATING REVENUE (Note 1):</b>		
Transportation of gas .....	\$21,443	\$22,454
Liquids extraction .....	40,326	29,933
Total operating revenue .....	61,769	52,387
<b>OPERATING EXPENSES:</b>		
Operating and maintenance .....	42,752	34,403
Administrative .....	1,464	1,446
Depreciation (Note 1) .....	3,968	3,354
Property taxes .....	1,311	1,116
Total operating expenses .....	49,495	40,319
OPERATING INCOME (Note 1) .....	12,274	12,068
OTHER INCOME (Note 1) .....	3,078	2,105
INCOME BEFORE INCOME DEDUCTIONS .....	15,352	14,173
<b>INCOME DEDUCTIONS:</b>		
Interest on long term debt .....	2,037	2,178
Interest on other debt .....	965	155
Other .....	49	49
Total income deductions .....	3,051	2,382
INCOME BEFORE INCOME TAXES .....	12,301	11,791
PROVISION FOR INCOME TAXES (Note 1) .....	5,030	6,004
NET INCOME FOR THE YEAR .....	\$ 7,271	\$ 5,787
EARNINGS PER COMMON SHARE .....	\$6.10	\$4.85

See accompanying notes



# ALBERTA NATURAL GAS COMPANY Ltd

## STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1978

(with 1977 figures for comparison)

	1978	1977
	(thousands of dollars)	
<b>FUNDS PROVIDED:</b>		
Net income .....	\$ 7,271	\$ 5,787
Depreciation .....	3,972	3,360
Provision for income taxes .....	5,030	6,004
Other income deductions .....	49	49
Increase in notes payable .....	6,012	4,999
Gas Arctic costs recovered (Note 1) .....	8,443	—
TOTAL .....	<u>\$30,777</u>	<u>\$20,199</u>
<b>FUNDS APPLIED:</b>		
Net additions to plant, property and equipment .....	\$23,922	\$15,303
Reduction of long term debt .....	2,374	2,373
Income taxes paid or payable .....	174	1,416
Dividends .....	2,255	1,962
Gas Arctic-Northwest Project expenditures .....	780	2,377
Other deferred charges .....	65	156
Increase (decrease) in working capital other than short term borrowings .....	1,207	(3,388)
TOTAL .....	<u>\$30,777</u>	<u>\$20,199</u>

See accompanying notes

# ALBERTA NATURAL GAS COMPANY Ltd

## STATEMENT OF REINVESTED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1978

(with 1977 figures for comparison)

	1978	1977
	(thousands of dollars)	
BALANCE AT BEGINNING OF THE YEAR .....	\$19,112	\$15,287
NET INCOME FOR THE YEAR .....	7,271	5,787
	26,383	21,074
DIVIDENDS PAID ON COMMON SHARES .....	2,255	1,962
BALANCE AT END OF THE YEAR (Note 3) .....	\$24,128	\$19,112

See accompanying notes

## Auditors' Report

To the Shareholders of  
Alberta Natural Gas Company Ltd:

We have examined the balance sheet of Alberta Natural Gas Company Ltd as at December 31, 1978 and the statements of reinvested earnings, income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year:

Calgary, Alberta  
January 31, 1979

DELOITTE, HASKINS & SELLS  
Chartered Accountants



# NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1978

*(Tabular amounts shown in Thousands of Dollars)*

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### (A) OPERATIONS:

Alberta Natural owns and operates a 36-inch pipeline from a point near Coleman, Alberta to Kingsgate, on the British Columbia-Idaho border for the transportation of gas owned by Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited. Alberta Natural also owns and operates an extraction plant near Cochrane, Alberta, which removes ethane and propane and heavier liquids (NGL) from the gas stream of Alberta and Southern. Operation of the ethane extraction facility commenced in September, 1978.

The gas transportation contract with the gas shippers and the sale agreements with the purchasers of NGL and ethane provide for the full recovery of all operating expenses, depreciation, property and income taxes, together with a return on the unrecovered investment. In addition, Alberta Natural is entitled to 25% of the cumulative net marketing profits arising from the sale of the NGL by the buyers, Dome Petroleum Limited and Amoco Canada Petroleum Company Ltd., and a share of the annual net profit realized by the buyer, The Alberta Gas Ethylene Company Ltd., on the sale outside Alberta of ethane surplus to ethylene plant requirements.

### (B) DEPRECIATION:

Gas transmission plant is being amortized at an annual rate equal to the proportion that the annual volume of throughput authorized for export by the shippers bears to the total volume remaining under the licences granted by the National Energy Board.

Depreciation on the portion of the extraction plant used for the removal of NGL is calculated at an annual rate of 2½% on a straight-line basis. The ethane portion of the extraction facility is being depreciated at an initial rate of approximately 6¼% decreasing to 1¼% after 15 years.

### (C) GAS ARCTIC:

Alberta Natural is a member of the Gas Arctic-Northwest Project Study Group. The applications for permission to construct a large diameter gas pipeline from Alaska and the Mackenzie Delta to major Canadian and United States gas market areas, sponsored by the Group, were unsuccessful. The total cost of Alberta Natural's participation in this project, including an allowance for funds advanced, amounted to \$10,366,000 to December 31, 1978. Under an agreement with its related companies, Pacific Gas Transmission Company and Pacific Gas and Electric Company and with The Montana Power Company, Alberta Natural has recovered \$8,443,000 of the total costs. In the opinion of Alberta Natural, all or a portion of its remaining costs may be recovered due to the participation of the company and its affiliates in the Alaska Highway project to move natural gas from Alaska to the lower 48 United States. Such recovery will require appropriate regulatory approval of the inclusion of these costs in the project rate base. In the event that it is conclusively determined that any portion of the costs will not be recovered, they will be charged to income.

(D) INCOME TAXES:

Alberta Natural follows the tax allocation basis of recording income taxes on all income except for gas transportation and liquids extraction operations which are subject to cost of service contracts, as explained in (A) above. Income taxes are provided on this source of income only to the extent that they are included in allowable costs of service under such contracts.

(E) ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION:

An allowance for funds used during construction is capitalized as part of the cost of construction of new facilities. During 1978 \$2,048,000 (1977 — \$489,000) has been capitalized and is included in other income.

**2. PLANT, PROPERTY AND EQUIPMENT:**

	<u>1978</u>	<u>1977</u>
Gas Transmission Plant		
In Service .....	\$57,279	\$57,208
Under Construction .....	3	9
	<u>57,282</u>	<u>57,217</u>
Less: Accumulated Depreciation .....	31,204	28,300
Net Gas Transmission Plant .....	<u>26,078</u>	<u>28,917</u>
Natural Gas Liquids Extraction Plant		
In Service .....	57,132	18,101
Under Construction .....	5	15,185
	<u>57,137</u>	<u>33,286</u>
Less: Accumulated Depreciation .....	4,103	3,041
Net Natural Gas Liquids Extraction Plant .....	<u>53,034</u>	<u>30,245</u>
Net Plant, Property and Equipment .....	<u>\$79,112</u>	<u>\$59,162</u>

**3. SHAREHOLDERS' EQUITY:**

Restrictions on the payment of cash dividends under certain circumstances are contained in the Deed of Mortgage and Trust securing Alberta Natural's bonds. At December 31, 1978 \$3,082,000 otherwise available for dividends was restricted in this manner.

**4. LONG TERM DEBT:**

First Mortgage Pipe Line Bonds:

	<u>Year Issued</u>	<u>Maturity</u>	<u>1978</u>	<u>1977</u>
5¾% Series A	1961	1986	\$ 8,152	\$ 9,239
8¾% Series B	1969/1970	1991	6,973	7,510
(\$6,500,000 U.S.)				
8½% Series C	1971	1992	9,750	10,500
			<u>24,875</u>	<u>27,249</u>
Less sinking fund instalments due within one year .....			1,623	1,623
			<u>\$23,252</u>	<u>\$25,626</u>

The Series A Bonds are payable in United States dollars. As provided by the gas transportation contract, Alberta Natural is required to accept from the gas shippers in



substitution for an equal number of Canadian dollars, the number of United States dollars required to make the annual principal and interest payments on the bonds. Accordingly, the principal amount of the Series A Bonds and associated interest expense are recorded in Alberta Natural's accounts on the basis of the two currencies being equal in value.

The Series B Bonds are payable in United States dollars. The principal amount of the Series B bonds is recorded in Alberta Natural's accounts at the amount of Canadian funds received on conversion of United States funds received on issue.

Sinking fund requirements amount to approximately \$2,337,000 (\$1,587,000 (U.S.) and \$750,000 (Cdn.)) in each of the years 1980 to 1983. The 1979 sinking fund requirement for the Series C bonds has been provided for by the purchase and cancellation of \$750,000 principal amount of such bonds and consequently the liability for sinking fund instalments due within one year has been reduced by this amount.

Substantially all of the properties of Alberta Natural are pledged under the Deed of Mortgage and Trust securing the bonds.

**5. DIRECTORS AND OFFICERS:**

At December 31, 1978 Alberta Natural had nine directors and ten officers. Three of the officers were also directors. Directors' fees of \$17,400 were paid in 1978 (1977 — \$17,400) which represented the only remuneration received from Alberta Natural by the directors and officers. In respect of services rendered to it by some of its officers who are also officers of a related company, Alberta Natural pays a service charge to the related company.

**6. COMMITMENT:**

Alberta Natural will construct and operate the segment of the Foothills Alaska Highway Project in southeastern British Columbia parallel to the Alberta Natural pipeline and has undertaken to subscribe for 49% of the shares issued by Foothills Pipelines (South B.C.) Ltd., which company will own that segment of the Foothills Alaska line.

Other deferred charges represent expenditures for environmental and archeological studies and preliminary engineering and other costs related to this segment of the Project.

# ALBERTA NATURAL GAS COMPANY Ltd

## Ten Year Comparative Highlights

	1978	1977	1976
Operating revenue (\$000's) .....	61,769	52,387	47,317
Net income (\$000's) .....	7,271	5,787	5,701
Common equity			
— total (\$000's) .....	38,442	33,426	29,601
— per share (\$) .....	32.23	28.02	24.82
Average equity outstanding (\$000's) .....	35,934	31,513	27,663
Return on average equity (%) .....	20.23	18.36	20.61
Average number of common shares outstanding .....	1,192,822	1,192,822	1,192,822
Earnings per outstanding common share (\$) .....	6.10	4.85	4.78
Cash dividends (\$000's) .....	2,255	1,962	1,825
Annual dividend rate per common share (\$) (2) .....	2.40	1.72	1.62
Dividend payout ratio (\$) .....	31.0	33.9	32.0
Total gas plant at year end (\$000's)			
— original cost .....	114,419	90,503	75,213
— depreciated cost .....	79,112	59,162	47,220
Construction expenditures (\$000's) .....	23,926	15,318	11,271
Average daily volume of gas delivered (10 <sup>6</sup> m <sup>3</sup> ) .....	30.57	35.13	34.56
Maximum daily volume of gas delivered (10 <sup>6</sup> m <sup>3</sup> ) .....	36.66	39.77	38.47
Average daily production of			
— NGL (m <sup>3</sup> ) .....	1 680	1 840	2 020
— ethane (m <sup>3</sup> ) (3) .....	2 630	—	—

NOTES: (1) Includes special item.

(2) At year end.

(3) Average since startup.



1975	1974	1973	1972	1971	1970	1969
41,063	30,940	23,853	17,291	14,170	7,797	5,676
4,563	3,456	2,144	1,977	1,770	1,612	1,216
25,725	22,832	20,688	19,796	19,012	18,435	11,966
21.57	19.14	17.34	16.60	15.94	15.45	14.04
24,278	21,760	20,242	19,404	18,723	15,200	11,784
18.79	15.88	10.59	10.19	9.45	10.61	10.32
1,192,822	1,192,822	1,192,822	1,192,822	1,192,822	942,334	852,016
3.83	2.90	1.80	1.66	1.48	1.71(1)	1.43
1,670	1,312	1,252	1,193	1,193	937	852
1.50	1.10	1.10	1.00	1.00	1.00	1.00
36.6	38.0	58.4	60.3	67.4	58.1	70.1
75,105	74,183	73,911	73,544	72,999	68,378	51,552
50,456	52,591	55,342	58,012	60,439	57,969	42,466
946	314	357	564	4,673	16,838	9,440
33.94	31.95	34.53	34.16	31.84	27.76	24.48
37.96	38.78	38.87	37.73	36.91	33.09	30.48
2 210	2 110	2 460	2 080	1 450	990	—
—	—	—	—	—	—	—

